FragranceNet.com, Inc. v. FragranceX.com Inc. Doc. 35

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

FragranceNet.com, Inc., Plaintiff, - against - FragranceX.com Inc. and John Does 1-20 Defendant.	CV 06 2225 (JFB) (AKT)

REPLY MEMORANDUM OF PLAINTIFF FRAGRANCENET IN SUPPORT OF ITS MOTION FOR LEAVE TO AMEND ITS COMPLAINT

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Preliminary Statement

Defendant opposes plaintiff's motion to amend its complaint essentially on three grounds: (1) defendant does not "use" plaintiff's mark as defendant contends is required by the Lanham Act; (2) there cannot be likelihood of confusion as a matter of law and (3) plaintiff does not have any trademark rights. Only the first of defendant's arguments has the potential for providing the basis to deny plaintiff's motion at this stage of the litigation. It is premature to rule on defendant's other two subjective views. A court should refrain from invalidating a trademark without any record or evidence.

Defendant's argument regarding trademark use was anticipated and addressed in plaintiff's moving papers. Defendant does not raise any new arguments, and fails to refute critical arguments made by plaintiff. Defendant's argument regarding likelihood of confusion is inappropriate at the pleading stage. Even in those rare instances where courts grant summary judgment on the issue of likelihood of confusion, they do so after adequate discovery and the opportunity to develop a record. With respect to defendant's argument that plaintiff has no trademark rights, the Court is reminded not only that it is not bound by the preliminary findings of a low level administrative agency employee, but also that plaintiff's initial attempt to demonstrate acquired distinctiveness before the Trademark Office relied only on continuous use, not on the overwhelming showing that it is capable of making before this Court (as well as to the Trademark Office examining attorney at a later date). For those reasons, among others, as will be more fully developed below, plaintiff's motion to amend its complaint should be granted.

THE STANDARD

The Court is respectfully referred to plaintiff's initial memorandum at page 1 for the standard to be applied in deciding this motion. An amendment to a complaint is considered futile only if the proposed claim would not survive a motion to dismiss. *See Ross Prods. Div. Abbott Labs.*

Inc., NO. CV 06-3264, 2007 WL 1288125, at *2 (E.D.N.Y. Apr. 26, 2007). Thus, as is the case on a motion to dismiss, the Court must accept the allegations in the complaint as true and construe the complaint liberally, drawing all reasonable inferences in favor of the movant. *Id.* The Court's function "is not to weigh the evidence that might be presented at trial but merely to determine whether the complaint itself is legally sufficient." *Id.* To state a claim for trademark infringement, the moving party must allege merely (1) that it has a valid mark that is entitled to protection under the Act and (2) that defendant infringes plaintiff's mark. *Estée Lauder, Inc. v. The Gap, Inc.*, 108 F.3d 1503, 1508 (2d Cir. 1997).

PLAINTIFF'S PROPOSED AMENDMENT STATES A CLAIM FOR TRADEMARK INFRINGEMENT

Defendant points out that the *only* circuit that does not acknowledge a claim for trademark infringement based on a defendant's use of a plaintiff's trademark as a keyword in Internet advertising is the Second Circuit. Plaintiff has addressed the shortcomings in the reasoning used by each of the district courts within this circuit that has denied a plaintiff its day in court on that ground. In every one of them the decision was made without any record and based on a reading of the word "use" that no other circuit in the country agrees with. The reason for the position taken by those courts might well be explained by the failure of the plaintiffs in those actions adequately to address the gravamen of trademark infringement.

Perhaps the oldest form of trademark infringement is "palming off" or "passing off" one's goods or services as those of another. *See* 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §25:1 (4th ed. 2006). No one can deny that such wrongdoing constitutes trademark infringement. It may take different forms. In the first, a defendant expressly holds out its goods or services as those of plaintiff. *See Microsoft Corp. v. AGA Solutions, Inc.*, No. 05CV5796 (DRH)(MLO), 2007 WL 777756, at *6 (E.D.N.Y. Mar. 12, 2007). It may use the plaintiff's trademark, illustrate its advertising with a picture of plaintiff's goods or otherwise entice potential consumers into believing that the defendant's goods are those of plaintiff. Admittedly, in each of those cases the defendant has "used" the mark of the plaintiff.

However, in a second and equally prevalent and recognized form of passing off, a customer asks for the plaintiff's product by name (i.e., by brand or trademark) and is provided or sold a product that does not emanate from plaintiff. *See Bristol-Myers Co. v. R.H. Macy & Co.*, 151 F. Supp. 513, 513 (S.D.N.Y. 1957) (holding that defendant's substitution of its own product for plaintiff's when customers specifically asked for plaintiff's product by name amounts to unfair competition). That well-known form of passing off is precisely what occurs when a consumer types in Fragrancenet's name and is presented with the goods/services of someone else. In that form of infringement the defendant never displays, utters or otherwise "uses" the plaintiff's trademark. It merely passes off its own goods for the ones requested, by name, by the consumer. The argument of public versus mechanical use of a plaintiff's trademark is a red herring. In both cases the consumer is duped and the trademark owner injured. Defendant's utter failure and inability to address the passing off aspect of defendant's conduct requires the grant of plaintiff's motion.

The only case to reach the Court of Appeals for the Second Circuit dealt with pop-up ads, not the use of keywords in advertising. The critical difference between the two is that pop-up ads are tied to certain *Web sites* and the category of products displayed on them. In keyword advertising, the defendant's use is directly tied to, indeed uses, the plaintiff's *trademark* and does not depend merely on the nature of the goods offered on a particular Web site. That is why the Second Circuit cautioned that its decision in *1-800-Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005), *cert. denied*, 126 S. Ct. 749 (2005) was not binding on cases involving keyword advertising.

Quite naturally, the handful of district courts that relied on and cited *1-800-Contacts* when dismissing actions alleging trademark infringement based on the misuse of a plaintiff's trademark in keyword advertising were compelled to refer to the failure to "use" the plaintiff's mark on goods or displays in a strained effort to bring their cases within the rubric of *1-800-Contacts*, where the challenged pop-up ad was tied to a Web site, not to a word, and certainly not to a trademark. The Court is respectfully referred to plaintiff's initial memorandum at pages 7 - 11, where plaintiff addresses the distinctions between the cases now relied on by defendant and the situation before this Court.[1]

DETERMINATION OF LIKELIHOOD OF CONFUSION IS NOT APPROPRIATE AT THIS TIME

Defendant argues that on its lawyer's say-so the Court should not permit a plaintiff to demonstrate the likelihood of confusion in a trademark infringement case. The test for infringement is set out in the now well-known *Polaroid v. Polarad*, 287 F.2d 492, 495 (2d Cir. 1961), which identifies eight non-exclusive factors to be considered in making that determination. Defendant would short circuit that analysis, deny plaintiff the opportunity to demonstrate a likelihood of confusion and deprive plaintiff of its day in court because it personally believes confusion is unlikely.

The cases are legion for the proposition that evidence impacting the *Polaroid* factors provides the proper basis on which a court should determine whether or not a likelihood of confusion exists. *See PGC Prop., LLC v. Wainscott/Sagaponack Prop. Owners, Inc.*, 250 F. Supp. 2d 136, 142 (E.D.N.Y. 2003); *see generally Patsy's Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209 (2d Cir. 2003). Indeed, district court judges have been criticized for making that decision based on their own subjective views, rather than on a full record. *See Cadbury Beverages, Inc. v. Cott Corp.*, 73 F.3d 474, 480-82 (2d Cir. 1996) (vacating the district court's grant of summary judgment); *see also The Sports Authority, Inc. v. Prime Hospitality Corp.*, 89 F.3d 955, 965-66 (2d Cir. 1996) (vacating the district

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1 The most recent opinion by Magistrate Judge Reyes is no different from the others and again uses the obligatory language that the defendant there had not placed plaintiff's trademark on any goods or displays.

court's grant of summary judgment where it had improperly drawn inferences as to which a reasonable trier of fact could have reached different conclusions in its likelihood of confusion analysis). *A fortiori*, where the only "evidence" in the record is the subjective argument of one of the party's lawyers, a decision that likelihood of confusion cannot exist would be highly improper, and reversible on its face.

The Second Circuit has recognized that under the *Polaroid* analysis, summary judgment on the issue of likelihood of confusion is appropriate only in the rare instance where the disputed evidence would lead to only one conclusion, or when there is no unresolved issue of fact. *The Sports Authority, Inc*, 89 F.3d at 960. It further has cautioned that "if a factual inference must be drawn to arrive at a particular finding on a *Polaroid* factor, and if a reasonable trier of fact could reach a different conclusion, the district court may not properly resolve that issue on summary judgment." *Patsy's Brand, Inc.*, 317 F.3d at 215 (quoting *Cadbury Beverages, Inc.*, 73 F.3d at 478). In particular, the Second Circuit has held that "only in the rarest of cases may summary judgment be granted against a plaintiff who has not been afforded an opportunity to conduct discovery." *PGC Prop., LLC*, 250 F. Supp. 2d at 142-43 (citing *Miller v. Wolpoff & Abramson, LLP*, 321 F.3d 292, 303-04 (2d Cir. 2003) (quoting *Hellstrom v. U.S. Dep't of Veteran's Affairs*, 201 F.3d 94, 97 (2d Cir. 2000)). Defendant asks this Court to preclude plaintiff from even pleading infringement. Summary judgment cases allow such a pleading, allow discovery and allow the development of a record.

The argument that what defendant does is no different from a drug store placing its generic products next to the corresponding branded products is misguided. In the drug store situation, no consumer had asked for the plaintiff's product by name. In the case of keyword advertising, a consumer types in the plaintiff's trademark and then is confronted with, among other things, a link to defendant's Web site. There is no analogy to be drawn to a drug store. *A fortiori*, where, as here, plaintiff's mark identifies only its own Web site, not a product, the consumer must be looking for only plaintiff. Even defendant does not dispute that.

Defendant tries to downplay its wrongdoing by arguing that when a consumer types in "Fragrancenet," the consumer receives a page that includes plaintiff's Internet address on it. That, of course, would be no different from a customer ordering a product of the plaintiff and being presented with ten products, one of which may be the plaintiff's. Confusion is inevitable. The unfairness is patent.

PLAINTIFF HAS A VALID TRADEMARK

Defendant would have this court destroy plaintiff's intellectual property before there is even a pleading. It argues that because plaintiff's pending application to register FRAGRANCENET was met with an initial refusal by the lowest level administrative employee in the Trademark Office that its proposed amended complaint should be rejected. Defendant's reasoning is faulty on many levels. Courts are not bound by findings of a Trademark Office examining attorney. Even where the Trademark Trial and Appeal Board affirms an examining attorney's conclusions, a district court reviews those findings *de novo*. *See Murphy Door Bed Co. v. Interior Sleep Systems, Inc.*, 687 F. Supp. 754, 762 (E.D.N.Y. 1988) (holding that the plaintiff's mark has not been transformed into a generic term despite the examining attorney's finding that the mark was generic and the TTAB's affirmation of that finding).

The examining attorney initially refused registration of FRAGRANCENET because he felt it was merely descriptive. As pointed out in that Office action,[2] and as is well-established as a matter of law, there are multiple ways to go about demonstrating secondary meaning. Plaintiff chose to base its argument, in the first instance, on the fact that it had made substantially exclusive

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2 *See* affidavit of defendant's Joy Fallek, Ex. F (December 12, 2006 Office action from USPTO to FragranceNet).

and continuous use of its mark for five years. The Lanham Act itself allows for such reliance. *See* 15 U.S.C. § 1052(f). The examining attorney did not accept that argument. Plaintiff intends to provide the examining attorney with overwhelming evidence of secondary meaning, including large advertising expenditures and sustained sales totaling in excess of $150 million from a single source identified as FragranceNet. Much less than that regularly has been accepted as evidence of secondary meaning. *See* Reply Declaration of Dennis M. Apfel, submitted herewith.

FragranceNet is not a brand name for goods. The factors that are considered in determining whether a mark has developed secondary meaning are "(1) advertising expenditures, (2) consumer studies linking the mark to a source, (3) unsolicited media coverage of the product, (4) sales success, (5) attempts to plagiarize the mark, and (6) length and exclusivity of the mark's use." *Air Cargo News, Inc. v. Tabmag Publ'g, Ltd.*, No. 07-CV-480 (DLI)(RLM), 2007 WL 1101183, at *8 (E.D.N.Y. Apr. 11, 2007) (quoting *Genesee Brewing Co. v. Stroh Brewing Co.*, 124 F.3d 137, 143 n. 4 (2d Cir. 1997)). Plaintiff easily passes the test. In all events, the pleadings stage is not the appropriate time to make that determination.

Defendant seeks comfort in a case that it attaches to its papers that held "sex.com" to be generic or highly descriptive. Were plaintiff's mark "fragrances.com," perhaps the analogy would be apt. It is not. *See* 8-10, *infra.*

It is well-established that a mark is merely descriptive only if it directly conveys information concerning the function, characteristics, purpose or use of the product or services. *Towers v. Advent Software, Inc.*, 16 U.S.P.Q.2d 1039, 1040 (Fed. Cir. 1990). As Professor McCarthy states:

> Under the Lanham Act, as under the common law, one of the tests to determine whether a mark is "merely descriptive" is based upon what the mark would mean to the potential customer when applied to applicant's goods.

> The word "merely" in the Act apparently means that if the mark clearly does not tell the potential customer only what the goods are, their function, characteristics, use or ingredients, then the mark is not "merely descriptive."

2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 11:51 at 11-95 to 11-96 (4th ed. 1999). *See also In re Pennzoil Products Co.*, 20 U.S.P.Q.2d 1753 (T.T.A.B. 1991) ("It is well-settled that a term is considered to be merely descriptive of goods or services . . . if it *immediately* describes an ingredient, quality, characteristic or feature thereof or if it *directly* conveys information regarding the nature, function, purpose or use of the goods or services.") (emphasis added).

As the cases and commentary make clear, the key component of the "merely descriptive" test is not whether the mark can, in some manner, arguably be considered descriptive, but rather whether the function, characteristics, or use of the mark in relation to the goods is *immediately* and *directly* conveyed, i.e., always and only conveyed. The Trademark Trial and Appeal Board, by using such terms as "immediately" and "directly," has imposed a high threshold for categorizing a term as merely descriptive, a threshold that FRAGRANCENET does not cross.

Any doubt regarding whether a mark is descriptive or suggestive must be resolved in favor of the trademark owner. *In re Gourmet Bakers, Inc.*, 173 U.S.P.Q. 565 (T.T.A.B. 1972).

"Fragrancenet" is not generic. It is not in the dictionary. It has no common meaning. The Merriam-Webster Online Dictionary, last accessed on May 24, 2007, defines "fragrance" as a sweet or delicate odor, something compounded to give off a sweet or pleasant odor, the quality or state of having a sweet odor. It defines "net,"[3] as pertinent to the matter before this

[3] Plaintiff has omitted the many other definitions of "net" that likely have no bearing on this motion. Including them could only help plaintiff.

Court, as a group of communication stations operating under unified control-network; remaining after the deduction of all charges; excluding all nonessential considerations; relating to the Internet.

Thus, FRAGRANCENET may create multiple commercial impressions and convey more than one meaning, such as a network for, of or about perfumes or aromas; the place to come for the best price for perfume (after deductions); a basic retail site for fragrances and perfumes, with unnecessary matter removed; or perfumes sold on the Internet.

A mark that connotes two meanings, one possibly descriptive, the other suggestive of some other assertion, is not "merely descriptive." *See* 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 11:19 (4th ed. 1998). It is well established that when a mark has multiple meanings, the mark is suggestive and not merely descriptive, even though one or more or those meanings may have descriptive significance. *See, e.g., In re Grand Metropolitan Food Service Inc.*, 30 U.S.P.Q.2d 1974, 1976 (T.T.A.B. 1994) (finding MUF-FIN mark for muffins not merely descriptive because the mark plays on the generic term muffin); *In re Computer Business Systems Group*, 229 U.S.P.Q. 859, 859-860 (T.T.A.B. 1985) (finding AUTO*MATE mark for computer programs for performing bookkeeping and accounting for businesses in the automotive field suggestive because "mate" also suggests that the program is a friend or assistant of the user). *See Dial-A-Mattress Operating Corp. v. Mattress Madness, Inc.*, 841 F. Supp. 1339, 1347 (E.D.N.Y. 1994) ("The phrase 'dial-a-mattress,' while certainly establishing a link between the telephone and bedding products, does not begin to describe the nature, scope or extent of the services that the name has come to represent."); *see also Elizabeth Taylor Cosmetics Co. v. Annick Goutal, S.A.R.L.*, 673 F. Supp. 1238, 1244 (S.D.N.Y. 1987) (finding "Passion" suggestive as applied to perfume because it describes an emotion the fragrance seeks to induce).

PLAINTIFF STATES A CLAIM FOR DILUTION

Plaintiff does not quarrel with the fact that famous (federal) and very strong (state) trademarks are protected under dilution statutes. It respectfully refers the Court to the Apfel declaration and asks how much better known, i.e., famous and strong, must a mark be before it may be protected under the dilution statues. That is not a decision that should be made pre-pleading.

PLAINTIFF STATES A CLAIM FOR UNJUST ENRICHMENT

A claim for unjust enrichment must establish: (1) that the defendant benefited; (2) at the plaintiff's expense; and (3) that equity and good conscience require restitution. *Beth Israel Med. Ctr. v. Horizon Blue Cross and Blue Shield of N.J., Inc.*, 448 F.3d 573, 586 (2d Cir. 2006). *Paramount Film Distrib. Corp. v State of New York*, 30 N.Y.2d 415, 421 (1973) sets out the basic approach long employed by the New York Court of Appeals. Although such a claim requires some nexus between the parties, the New York Court of Appeals has made it clear that there is no requirement of privity. *Sperry v. Crompton*, 8 N.Y.3d 204, 215 (2007). Here, defendant's use of plaintiff's trademark provides that nexus.

CONCLUSION

For the foregoing reasons as well as those stated in plaintiff's initial moving papers, its motion to amend should be granted.

Dated: New York, New York
May 25, 2007

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that she has caused to be served via overnight mail a true and correct copy of the foregoing REPLY MEMORANDUM OF PLAINTIFF FRAGRANCENET IN SUPPORT OF ITS MOTION FOR LEAVE TO AMEND ITS COMPLAINT on this 25th day of May, 2007, on the following counsel of record:

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The above is the address designated by said attorneys for service.

Rosetta Kromer
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